



# The Audit Plan for Manchester City Council

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**Year ending 31 March 2016**

June 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



Manchester City Council  
Albert Square  
Manchester  
M60 2LA

June 2016

Dear Members of the Audit Committee

**Audit Plan for Manchester City Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Manchester City Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Mark Heap

Engagement Lead

**Chartered Accountants**

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## Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

### Challenges / opportunities

#### 1. Local government financial settlement and financial health

- The Autumn Statement highlighted reductions in local government funding over 5 years, and the overall impact of the subsequent financial settlement was a reduction in government funding to the Council of £29m for 2016/17.
- The government has committed to phasing out revenue support grant and introducing 100% local retention of business rates, and the Council is participating in a 100% retention pilot scheme.
- The Council developed savings plans totalling £55m to achieve a balanced budget for 2015/16, and a further £26m of savings to achieve a balanced budget for 2016/17. These required savings are in addition to significant budget reductions in recent years.

#### 2. Devolution

- The Autumn Statement 2015 included proposals to devolve further powers to localities. Greater Manchester is at the forefront of this agenda, with the devolution of approximately £6bn of Health and Social Care budgets to Greater Manchester presenting significant opportunities and challenges as transformational changes take place to integrate service delivery.
- A further Devolution Agreement, announced in November 2015, included government commitments to work with Greater Manchester in a variety of areas including in relation to a fundamental review of childrens' services delivery, strategic transport schemes, public service reform, employment and skills, business support provision and low carbon investment

### Our response

- We will consider the Council's plans for securing its financial resilience as part of our work to reach our VFM conclusion.

- We will continue to monitor developments through our regular meetings with senior management and the Audit Committee, providing a view where appropriate.
- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.

## Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

### Challenges/opportunities

#### 3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing. In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on councils' housing revenue account business plans.
- The Council is managing a significant Housing Investment Fund (HIF) which aims to accelerate private sector housing construction activity by providing development loans.



#### 4. Integration with health sector

- Manchester's "Living Longer, Living Better" is a programme reform of health and social care services, supported by the Better Care Fund pooled budget. The Council and the three Manchester Clinical Commissioning Groups pooled £44m in 2015/16.
- A Manchester Health and Social Care Locality Plan continues to be developed to transform current systems. Integrated commissioning and delivery of services, and more community based care, are aimed at securing improved health outcomes for residents, whilst also moving towards financial and clinical sustainability.



### Our response

- We will consider how the Council has reflected government announcements as part of its business planning process. We will share our knowledge of how other councils are responding to these changes.
- We will assess whether the HIF has been appropriately accounted for, taking account of the requirements of the CIPFA Code of Practice on Local Authority Accounting.

- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements.
- We will consider how the Council is working with partners in relation to transformation of health and social care provision as part of our work in reaching our VfM conclusion.

## Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

### Developments and other requirements

#### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value, in line with IFRS 13, rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- IFRS13 introduces a number of additional disclosure requirements.



#### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a 'Narrative Statement', which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.



### Our response

- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice and make recommendations for improvement where appropriate.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

## Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

### Developments and other requirements

#### 3. Highways Network Assets

- Although you are not required to report Highways Network Assets at depreciated replacement cost until 2016/17, this will be a significant change to your financial statements and you will need to carry out significant preparatory work this year.



#### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



### Our response

- We will continue to discuss your plans for Highways Network Asset accounting to gain an understanding of your approach and to share our experience.

- We aim to complete all substantive work in our audit of your financial statements by 31 August 2016 as part of a phased plan to comply with the earlier timetable.
- We will continue to share good financial reporting practice identified within the local government sector.



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## Our audit approach

Our audit approach follows the requirements of the International Auditing Standards (ISAs). We have summarised below the key stages involved:

### Initial audit planning

At the initial planning stage of our audit we update our understanding of the City Council. Our work at this stage includes a combination of:

- meeting with the Council's senior officers
- meeting with Internal Audit and taking account of IA's work programme
- reviewing minutes of Council meetings
- reviewing financial information, including budget monitoring reports
- taking account of any changes in the financial reporting framework.

We set out on pages 5 and 6 of this Audit Plan a high level summary of our understanding of the Council and the key challenges and opportunities it faces.

### Risk assessment

Our audit is risk-based and we develop an Audit Plan that responds to the risks and issues we have identified at the initial planning and control evaluation stages. We consider different types of risks including inherent risks, significant risks and other risks such as those arising from system changes and issues identified in prior years. Our audit focuses on risks of material misstatement of the financial statements, and we prioritise identified risks and determine the nature and extent of audit work necessary to address them. Pages 12 to 17 of this Audit Plan provide more detail on our risk-based approach to the audit.

### Control evaluation

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. We consider an item as being material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true or fair view. We focus our control evaluation work on the high risk areas of the financial statements. In order to assess whether controls have been implemented as intended, we conduct a combination of inquiry and observation procedures, and, where appropriate, transaction walkthroughs.

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## Our audit approach - continued

### **Financial statements audit**

As part of the financial statements audit we undertake detailed testing on material income, expenditure, balances and disclosures within the Council's financial statements.

### **Conclusion and reporting**

After completion of our audit testing we consider the impact of any misstatements and omissions we have identified, both individually and in aggregate, on the financial statements. We then assess whether the financial statements give a true and fair view of the Council's financial position and its income and expenditure for the year. We take into account significant events that have taken place after the balance sheet date as well as representations from senior officers and those charged with governance. We summarise the findings and conclusions from our audit in our Audit Findings Report.

Throughout the course of our audit we document our work using Grant Thornton's "Voyager" audit software. Voyager is an intelligent software program that stores audit evidence and creates tailored audit testing programmes that ensure compliance with International Standards on Auditing (ISAs).

## Our audit approach - materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £31.8 million (being 1.75% of 2014/15 gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £1.59 million.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made, we expect disclosures to be within the correct bandings.
Disclosure of auditors' remuneration in notes to the statements	Due to public interest and statutory requirements, we expect disclosures to be correct.

## Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Manchester City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Manchester City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Planned audit work:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Tests of detail on unusual significant transactions, if identified.</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p><b>Planned audit work:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Communications with valuers about the basis on which valuations are carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by valuers to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p><b>Planned audit work:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will use the work of an auditor's expert to gain assurance that methods and assumptions used in the valuation are reasonable and appropriate.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Better Care Fund	The Council is party to significant pooling of resources with the Manchester Clinical Commissioning Groups, under NHS Act 2006 Section 75 agreements. The Better Care Fund has increased the amount pooled from 1 April 2015 and there is a risk that transactions are not accounted for in accordance with the requirements of the Code and accounting standards.	<p><b>Planned audit work:</b></p> <ul style="list-style-type: none"> <li>• Obtain an understanding of the nature of the Better Care Fund arrangements in place</li> <li>• Review the Council's proposed accounting treatment</li> <li>• Tests of detail on accounting entries and disclosures within the financial statements.</li> </ul>

## Other risks

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Planned audit work
Operating expenses	Operating expenses or creditors understated or not recorded in correct period.	<ul style="list-style-type: none"> <li>• Update our accounting system and key controls documentation and undertake system walkthroughs</li> <li>• Substantive testing of expenditure ensuring valid spend and appropriate categorisation within net cost of services headings in the comprehensive income and expenditure statement</li> <li>• Sample test payables and accrued expenditure, including reviewing post year end invoices and payments</li> <li>• Review of control account reconciliations.</li> </ul>
Employee remuneration	Remuneration expenses not correct (remuneration accruals understated).	<ul style="list-style-type: none"> <li>• Update our accounting system and key controls documentation and undertake system walkthroughs</li> <li>• Review of payroll accrual processes</li> <li>• Review of key payroll reconciliations</li> <li>• Sample test employee expenses to staff records, pay rates and classification in the nominal ledger</li> </ul>
Welfare expenditure	Welfare benefits improperly computed.	<ul style="list-style-type: none"> <li>• Update our accounting system and key controls documentation and undertake system walkthroughs</li> <li>• Completion of selected "HB Count" testing modules.</li> </ul>

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## Other risks identified (continued)

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Investments (long term and short term)
- Debtors (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Levies
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Long-term contracts note and PFI disclosures
- Pooled funds note
- Revenue grants note
- Members' allowances and Officers' emoluments notes
- Leases notes
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

### Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts.



## Group audit scope and risk assessment

ISA 600 (audits of group financial statements) requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Manchester Airport Holdings Limited (MAHL)	Yes	Comprehensive	<ul style="list-style-type: none"> <li>Alignment of group accounting policies</li> <li>Adequacy of disclosures within the group financial statements.</li> </ul>	<p>Early audit engagement with the Council's finance team.</p> <p>Early engagement with MAHL's external auditor KPMG UK LLP to understand and inform their audit risk assessment procedures. We will review the outcome of the full scope UK statutory audit to be performed by KPMG on MAHL's 2015/16 financial statements.</p>
Destination Manchester Ltd	No	Analytical	N/A	Desktop review.

## Value for Money

### Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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## Value for Money (continued)

### **Risk assessment**

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

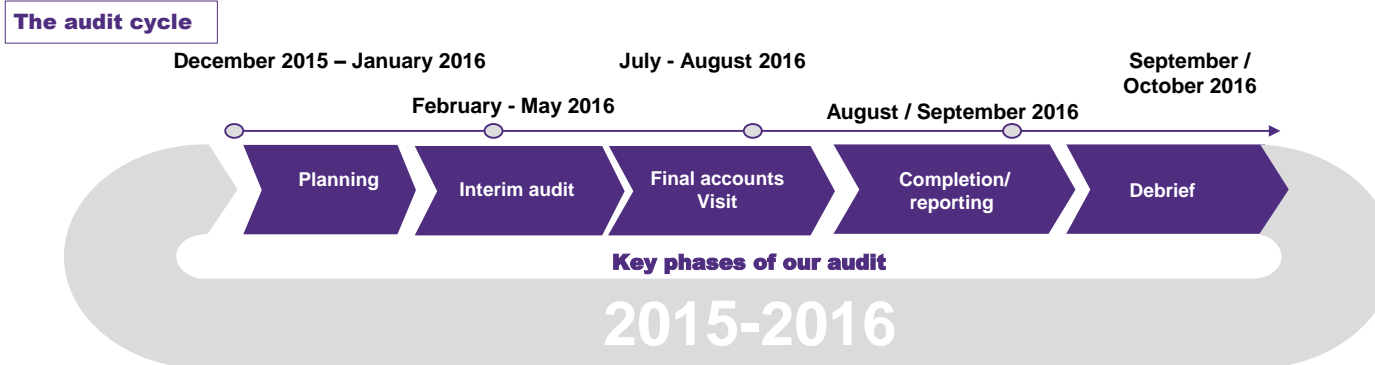
Following the completion of this risk assessment, we will communicate separately, setting out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

### **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

## Key dates



Date	Activity
December 2015 – January 2016	Initial audit planning
February – May 2016	Interim audit work
June 2016	Presentation of audit plan to Audit Committee
July – August 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with City Treasurer
September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion

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## Fees and independence

### Audit fees

	2015/16 £	2014/15 £
Manchester City Council audit	207,167	276,222
Grant certification	11,625	15,050
<b>Total</b>	<b>218,792</b>	<b>291,272</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Fees for other services

Service	Fees £
Provision of an Accountant's Report relating to the Teachers' Pensions Return for 2014/15 (in November 2015)	4,600
Provision of an Accountant's Report relating to the Pooling of Housing Capital Receipts Return for 2014/15 (in January 2016)	2,750
<b>Total</b>	<b>7,350</b>

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.





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